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FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC PRIORITY 0153
INFO RUEHBO/AMEMBASSY BOGOTA 7595
RUEHLP/AMEMBASSY LA PAZ NOV LIMA 0897
RUEHQT/AMEMBASSY QUITO 2711
RHEHNSC/NSC WASHDC
RUMIAAA/HQ USSOUTHCOM MIAMI FL
RUCPDOC/DEPT OF COMMERCE
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C O N F I D E N T I A L CARACAS 002228

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SIPDIS

HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR MMALLOY
NSC FOR JCARDENAS AND JSHRIER
COMMERCE FOR 4431/MAC/WH/MCAMERON

E.O. 12958: DECL: 11/21/2017
TAGS: EFIN EPET VE
SUBJECT: BALANCE OF PAYMENTS DATA MAY FORESHADOW CHALLENGES
FOR BRV

REF: A. CARACAS 2181

¶B. CARACAS 1544

Classified By: Economic Counselor Andrew N. Bowen for reasons 1.4 (b) a
nd (d).

¶1. (C) Summary: The Central Bank of Venezuela's (BCV's) third quarter balance of payments data illustrate two important trends: a declining volume of petroleum exports and rapidly growing imports. Imports over the first three quarters of 2007 have grown a hefty 36 percent relative to the same period in 2006. Petroleum export earnings over the same period in 2007 were USD 44.4 billion, a slight drop from the same period in 2006. As the average price of the Venezuelan basket has increased, the BCV figures suggest that export volume is declining. Moreover, the BCV figures almost certainly inflate export earnings: the USD 44.4 billion figure would imply average oil exports of 2.7 million barrels/day (mbd), whereas most analysts believe the BRV exports approximately 1.9 mbd. The BRV has reason to be concerned about the trends of declining production and rapidly increasing imports. If these trends continue and oil prices stabilize, the BRV will likely either have to devalue the bolivar or further restrict imports. End summary.

## Imports Rising, Oil Production Falling

¶2. (U) Third quarter balance of payments data recently released by the Central Bank of Venezuela (BCV) illustrate two important trends: a probable fall in the volume of petroleum exports and rapidly increasing imports. According to BCV figures, Venezuela earned USD 44.4 billion from oil exports from January through September 2007, a slight fall from the USD 45.7 billion earned during the same period in ¶2006. The average price of the Venezuelan basket was USD 59.6 per barrel from January to September 2007, slightly higher than the USD 57.7 average for the same period in 2006. Therefore, assuming the average quality of crude exported was the same, the BCV data indicate that the volume of Venezuela's oil exports slightly declined. (Note: Given record oil prices in the first half of the fourth quarter of 2007, we expect Venezuela's overall 2007 petroleum export earnings to be greater than that of 2006. End note.)

¶3. (U) According to BCV figures, imports grew from USD 22.6 billion in the first nine months of 2006 to USD 30.7 billion over the same period in 2007, an increase of 36 percent. As local commentators have pointed out, the combination of a rapid increase in imports with declining oil production is not sustainable (unless, of course, ever increasing oil prices were to compensate). Venezuela's overall trade balance surplus dropped from USD 28.2 billion over the first 9 months of 2006 to USD 18.9 billion in the same period of 2007, a 33 percent drop. (Note: Venezuela's non-petroleum exports remained stable at about USD 5.1 billion in both periods, roughly 10 percent of total exports. Given current record oil prices, we expect the final 2007 official trade balance surplus to be higher than USD 18.9 billion. End note.)

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Where's the USD 13.4 Billion?
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¶4. (SBU) The trade balance surplus may actually be significantly lower than official figures indicate. Assuming that the Venezuelan basket price represents the average price received by the BRV per barrel exported, total earnings of USD 44.4 billion in the first nine months of 2007 imply that the BRV exported 2.7 mbd. In contrasts, many analysts believe exports are closer to 1.9 mbd. At this level, export earnings at the basket price would be USD 31 billion for the first nine months of 2007, USD 13.4 billion less than the BCV claims. The trade balance surplus for this period would be only USD 5.5 billion, as opposed to the USD 18.9 billion in the official figures. We note that 2.7 mbd in exports, plus domestic consumption of 600,000 barrels/day, would place total production at 3.3 mbd, the BRV's claimed production level, an estimate with which no one in the non-government petroleum sector agrees.

¶5. (C) Most local analysts believe export earnings are inflated in the balance of payments, but there is debate over the extent to which they are and what other line items are fudged to cover up the overstatement of exports. CAF country economist Adriana Arreaza (strictly protect) told econoff that export earnings were clearly overstated and that BCV contacts told her that PDVSA was exaggerating its accounts receivable figures to compensate in the financial account. (Note: If so, the debit in the "other investment, public assets" line item in the balance of payments would be overstated. End note.) National Economic Council President Efrain Velazquez (strictly protect) told econoff that his BCV contacts believed the export earnings figures they received from PDVSA were 90 percent accurate.

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Comment
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¶6. (C) Regardless of the extent to which BCV figures overstate export earnings, the BRV has reason to be concerned about the two vulnerability trends illustrated in the balance of payments data, namely declining oil production and rapidly increased imports (ref B). BRV officials publicly maintain that oil production is high and healthy, but they have started to take steps to curb imports at the official rate and encourage domestic production in certain sectors (ref A). CADIVI, the government agency that authorizes provision of hard currency to importers at the official rate, has reduced the average daily dollar authorizations in the past month and a half relative to the third quarter, though it is too early to tell if this is a trend. If oil prices stabilize, oil production stays flat or declines, and imports keep rising, and assuming that foreigners will be unwilling to lend money to finance imports, the BRV at some point will either have to devalue or to further restrict imports at the official rate (an implicit devaluation, as importers would increasingly turn to the parallel rate). End comment.